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*Docket # 88-11*

**Statement of Jeff Olson**

**As Prepared for Delivery On**

**March 23, 1999**

*New, Commissioner Furchgott-Roth*

**Good morning Chairman Kennard, Commissioner ~~Tristani~~, all of our other distinguished guests.**

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**It's a pleasure to be here in Arizona this morning. Thank you for the opportunity to be here today.**

**FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY**

**My name is Jeff Olson. I am Director of Regulatory Planning and Policy Planning for GTE. My written statement will address a number of topics. I'd like to touch on two of them with you here today.**

**But first, as background, GTE provides service to about 8,000 customers in Arizona – including the Colorado River Indian Tribe in western Arizona, and the neighboring California area. We also provide service to several other tribal nations outside of Arizona.**

**We believe we have a very good relationship with the people of the CRIT reservation and I'm glad to be here with you.**

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**The Poston Arizona exchange is one of the GTE exchanges that serves the Colorado River Indian Tribe. That exchange covers about 289 square miles -- and serves about 140 business lines and 470 residential customers -- a total of about 610 lines. That equates to density of telephone lines of roughly 2 lines per square mile.**

**By contrast, a GTE exchange in Los Angeles has a density of over 24,000 lines per square mile. The comparison is density ratio of 12,000 to 1.**

**This points out a well-know fact -- that there are financial and operational challenges in providing affordable telecommunications services to sparsely populated areas. Using wireline technology, these areas have the higher costs caused by much longer loops and feeder and distribution plant.**

**In un-served areas, the challenge is similar -- to develop an infrastructure that can efficiently serve distant or rough terrain in locations where there may only be a single customer per square mile -- or fewer. Technologies that have the potential to serve these areas are starting to become commercially viable. These include wireless local loops, PCS, and the low-orbiting satellites of providers such as Iridium and Teledesic. But we're not <sup>entirely</sup> there yet.**

**How can these and other potentials be harnessed to deliver services to under-served or un-served areas?**

**GTE believes that we should rely – in part, at least – on auction mechanisms to bring services to sparsely populated areas. A purely market-based price for the delivery of telecommunications services to rural and insular areas may not be within the financial reach of the customers in these areas.**

**As a result, there are policy issues – like affordability and the specification of certain service obligations – that ~~are~~ enter the picture. Thus, the solutions are apt to be a mixture of policy decisions and market-based mechanisms.**

**Our proposed solution is a combination of policy decisions regarding affordability and universal service support and a market-based auction.**

**GTE proposes that any interested carrier which – by its bid – indicates it needs the lowest amount of financial support – be given the authority to serve the area.**

**In the interest of time, I won't try to explain auctions in detail. There are a few important points, however, about such an auction.**

**First, the auction would rely on competitive bidding – not on detailed cost study debates, which have proven to be highly contentious and resource intensive. Second, the auction would be technology-neutral – it would not prejudge the technology, and, as a result, it would encourage innovation. Third, it would not advantage any one group of carriers, or companies, over another – instead, it would leave the selection process to the market.**

**An auction can be used to address issues regarding under-service. Many factors that can contribute to under-service – including: low income levels; the relative affordability of the customers' total bills; the inability of customers to control long distance costs; the inability of the provider to obtain right-of-way permission to improve service quality and capabilities; -- and other factors.**

**Policymakers must determine the causes for under-service in order to design a required package of services and carrier obligations that correctly address these causes. And that's no small task – given the complexity of these problems.**

**As an example, policymakers might determine that the inability of customers to control long distance bills is a primary reason that customers drop off the**

**network. In that case, the authorities could define a package of telephone services to be supported by a fund that includes some forms of toll restriction services and – possibly -- customer education on how to use these capabilities.**

**But these requirements come at a cost. Increasing the items included in service package necessarily increases the support amounts that bidders will require to provide these required services. This increases funds needed and raises the burdens on payers into the fund.**

**An auction proposal can also be used for un-served areas. There are mechanics associated with nominating an area for an auction that will be discussed in my written statement.**

**The key to the success of an auction is the ability to attract bids from firms that are ready, willing and able to provide service – the same services that the authorities designate as eligible for support.**

**Presumably, the auction must allow the support amount to rise to a sufficient level to attract a bidder. Importantly, with affordability levels already determined, a higher bid by a carrier does not increase the costs to customers served in the area.**

**Prior to announcing an auction for an area, the authorities would make a judgement about what is the maximum fund that society is willing to have for the carrier to provide these defined services. This requires a balancing between the public interest benefits from having a Carrier of Last Resort in the area -- with the costs of the fund necessary to attract a firm willing to undertake these defined responsibilities.**

**Once these policy determinations have been made, the authorities could open the area for bidding.**

**If no bids are received, it may be desirable to repeat the process with a higher maximum support amount -- attempting to elicit a bid. There may be a point at which policymakers conclude that the public interest benefits of having a Carrier of Last Resort serve an area are outweighed by the high cost that would have to be paid to attract a bidder.**

**Thus, GTE believes that a properly structured auction is an ideal mechanism to attract qualified bidders to provide telecommunications service in under-served and un-served areas, including certain tribal reservations.**

**Now, I'd like to share a brief related suggestion.**

**The FCC should consider using the spectrum in the 3650 to 3700 MHz band for providing service to rural Americans. If used for rural service, these auctions – most probably – should be for geographic regions that are smaller than a Basic Trading Area – or BTA. This is because the BTA geography coverage is larger than what is needed to address most rural concerns. Also, we would need to work with equipment manufactures. This, however, could be a cost-effective wireless solution for rural telephone service – and deserves examination.**

**GTE stands ready to help the FCC and the Tribal Authorities with our expertise in any of these areas. Thank you.**